

report

ECONOMIC INTEGRATION AND CO-DEVELOPMENT:

Recipes for Shared Progress
in the Mediterranean Region

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ECONOMIC INTEGRATION AND CO-DEVELOPMENT: RECIPES FOR SHARED PROGRESS IN THE MEDITERRANEAN REGION

Palazzo Giustiniani (Italian Senate), Rome, 4-5 October 2018

On 4th and 5th October, the European Institute of the Mediterranean (IEMed) and the European League for Economic Cooperation (ELEC) organised the 14th Annual Conference of the Mediterranean Commission of the ELEC “Economic Integration and Co-Development: Recipes for Shared Progress in the Mediterranean Region”, which took place at Palazzo Giustiniani in Rome. The conference aimed to exchange ideas on such challenges by engaging major experts from the region and sharing their expertise and nourish the debate on the way towards a better, common, Mediterranean future.



Anna Rossomando, Vice President of the Senate, welcomes the participants of the conference

Opening Remarks

The inaugural session of the conference started with a statement about the importance of the relationship between the Northern and Southern Mediterranean shores, the intrinsic interdependence of countries and the need

to build a shared project that tackles the major challenges that lie ahead. The Mediterranean region is often a difficult and unstable context owing to unresolved political crises, economic volatility pre-empting growth and the well-being of the people. But it also has huge untapped potential.

Thus, the importance of seeking a change of direction and putting a renewed focus on the situation in the Mediterranean was mentioned. Some of the shared goals aim to ensure good governance, democracy, the rule of law and human rights, including a concerted effort for peace and security, growth and political stability. Moreover, the solution involves enhancing better cooperation and regional integration, encouraging democratic engagement, defending institutional stability, promoting industrial growth and infrastructural development and, last but not least, investing in our human capital.

Some argued that experience shows that integration is the path to achieve socioeconomic progress and peace. In 1995 the Mediterranean countries decided to put more emphasis on building a peaceful and progressive society in the Mediterranean region. Nevertheless, the European Union (EU) has made a great effort in recent years to work towards the integration of the Eastern European countries but, unfortunately, they have not been able to do the same for the Southern Mediterranean. This may suggest the need to adopt a coherent vision and strategy towards these countries by building bridges with better policies.

Ten Years after the Paris Declaration – 2008: Going Forward and the Rear-View Mirror

The session started by remembering the role of the Union for the Mediterranean (UfM) since its conception in the Paris Declaration of 2008, now ten years ago, as the conference was the perfect occasion to take stock of what has been done and achieved, share the lessons learned and see what lies ahead.

Back in 2008, the heads of governments and states from 43 countries launched the UfM, giving new impetus to the Euro-Mediterranean Partnership (EMP) by introducing important innovations such as the principle of variable geometry and increasing the ownership that is reflected in the current UfM co-presidency system. In 2010 the Secretariat of the UfM was created and it was given the technical mandate to promote regional integration and cooperation in the region with the goal of contributing to the creation of a space of peace, stability and shared prosperity.



From left to right: Mario Boffo, Moez Sinaoui, Josep Piqué, Rachid Maaninou, Salehddine Mezouar and Fathallah Sijilmassi

Unfortunately, 2008 also marked the beginning of the global economic and financial crisis that had devastating consequences for Europe, Southern Mediterranean countries and the world as a whole. During that context of

economic recession, the so-called Arab springs took place, bringing positive changes to some countries like Tunisia but also great destabilisation to others, namely to Libya, Syria and Egypt.

The main objective of the UfM since its inception has been to push for socioeconomic development, but the painful truth is that we are worse off than we were ten years ago and, more than shared prosperity, what came along was a shared crisis. Needless to say, the UfM could do little in that extremely complex and unstable period to prove its true and untapped potential to have a positive impact.

The Mediterranean is still known as the least integrated region in the world and, to compare it with other cases, European foreign direct investment (FDI) towards the Mediterranean is less than 3%, while in the case of the United States towards Central and South America or Japan towards the South Asian countries it is around six times higher at 18%. However, the intra-regional exchanges between the Maghreb countries are also below 3%, which means an average loss of around 2% of GDP growth each year. It was clear that the goals of the Barcelona Process had to be implemented through more North-South and South-South integration, and despite the constant efforts of the UfM some participants admitted that the context has not been favourable at all.

Apart from the economic crisis, Europe has been facing both an identity and institutional crisis. Brexit was a tangible example of the discontent of many European citizens that in the last decade have actively contested the concept and content of the EU as a political project. There has also been a rise in populist movements against the deepening of political integration in Europe. The citizens of today need immediate results, and the current political system revolves around fast and changing political agendas.

The Future that Lies Ahead

Even the world order, or “disorder” as some venture to call it, that we knew since the end of World War II seems to be shifting rapidly, especially since the

United States presidential elections of 2016. The progressive abandonment of multilateralism led by the Trump Administration as well as the increasing level of uncertainty that its political and economic projects are building demand renewed leadership and also put pressure on Europe to find a new role in the world.

In the meantime, the Southern Mediterranean countries have followed with great interest the evolution of Europe as a political and economic project and its lack of unity to respond to the key challenges that have confronted them, namely the economic austerity policies, the refugee crisis of 2015 or the terrorist attacks and rise of xenophobia.

Nevertheless, some argued that in troubled times the only way forward is to keep building and reinforcing the existing bridges between the Mediterranean countries. Insisting on multilateralism or pragmatically accepting bilateralism, awaiting an improvement of the context in the near future. It is more necessary than ever to frame a common and shared agenda where priorities do not overlap. It needs to be a positive agenda that appeals to the new and upcoming generation. It should not be forgotten that around 62% of the population of the south is under 30 and the Mediterranean has never had such a brilliant and well-trained generation of young people, who want to invest and collaborate and will play an important role in the future of the Mediterranean region as a whole.

Moreover, when talking about the future, the role of multilateral institutions such as the UfM will be key to strengthening regional integration, to coordinate and look for synergies between initiatives, public and financial institutions and actors working in and for the region in order for them to be more effective and profitable for everyone. If the UfM had never been created, the Mediterranean would have been in need of one. But for what lies ahead in the next ten years and beyond, there will need to be a stronger commitment to endowing the Institution with more resources, its own tools and the capacity to expand into new sectors of common interest, such as migration or tourism.

Key Structural Reforms to Foster Economic Integration in the Mediterranean

Since the beginning of the century, most Mediterranean countries have experienced economic growth and diversification thanks to the introduction of new reforms to key sectors and also by promoting the increasing role of the private sector. However, the economic crisis of the last ten years and the important political changes have challenged the political stability and consequently made governments slow down the pace when it comes to the implementation of reforms, especially in the case of those that are considered unpopular ones. When it comes to the Middle East and North Africa (MENA) countries, this also increased government expenditure to subsidise basic needs like food and energy, and it took away public expenditure for investments. The already complex situation was especially aggravated in some countries such as Lebanon or Jordan due to the huge influx of economic migrants and refugees.



The President of the ELEC, Bernard Snoy et d'Oppuers, chairing the second session

Most MENA countries are not exporters of commodities and they are heavily reliant on the import of oil and hydrocarbons with the notable exception of Egypt. They also trade very little with each other, the linkage between countries in terms of infrastructure is very limited and, for political reasons, countries that are neighbours are not willing to cooperate in important fields such as energy

or transport. Some MENA countries are making an effort to stay relevant internationally, such as Morocco, by trading with the EU and other markets and participating in global value chains (GVC) but there is little to no visible integration of trade, movement and human capital with other MENA countries. And without integration the region will underachieve and remain vulnerable to discontent.

On the other hand, European countries integrated when national economies prospered but, when the financial crisis came in 2008, instead of trying to cooperate more with each other to overcome the crisis, they looked internally. Some argued that this justifies the need to have growing economies at a national level to obtain the two fundamental prerequisites for integration: inclusiveness (as in better distribution of wealth and opportunity) and growth.

Promoting the Private Sector as a Driver of Growth

There was a debate on the importance of economic diversification and the consensus was that it should be achieved through the promotion of the private sector. Some of the key elements identified to enhance a friendlier ecosystem for the private sectors included improving the regulatory environment by removing red tape, introducing a more favourable tax regime for businesses, and improving access to finance, with seed capital for start-ups, equity for businesses that want to expand and lending on favourable terms for enterprises that want to consolidate and develop. This also means supporting local banks. Banks, not only in the MENA region but also the EU, are reluctant to lend to small and medium-sized enterprises (SMEs) because the risk is perceived as very high, so they lend with high collateral or they do not lend at all.

When it comes to professionals needed in the private sector, enterprises cannot find the middle level (workers specialised in specific sectors), so this means that the education system needs to focus more on that and enterprises should provide better opportunities to avoid brain drain.

Improving competitiveness is also an important factor for Mediterranean countries. Apart from more integration in the MENA region, trade with the EU

is also moderate. The EU gave countries such as Jordan or Lebanon a preferential trade arrangement in order to help them export to the EU and boost their economy, but the enterprises have not always been able to meet the standards and eligibility criteria to export to the EU because there is no set-up to help them understand these standards.

It is also hard to promote the development of a strong private sector if there is no investment in key infrastructures such as roads, utilities, reliable energy and water sanitation. In the MENA region, due to the limited budget and deficit of governments, there are poor levels of investment in the infrastructure sector. Some defended the idea of promoting more public-private partnerships in which foreign investors can invest in the countries and share the risks and benefits of building and managing large infrastructures with the public sector, such as motorways or power plants.

In addition, there is the issue of inclusiveness, particularly important given the high unemployment rates in the MENA region, especially among women and youths. This is another factor that explains the need to create an integrated ecosystem where enterprises are given the incentives to grow, create more workplaces and through their growth be able to subcontract SMEs and develop an industrial fabric.

Given the demographic challenge, at least five million jobs will have to be created every year to employ a growing workforce and ensure inclusiveness, and therefore it is also important to support micro-enterprises, which in the MENA region represent up to 90% of businesses. Equity and micro-finance, as well as encouraging banks to lend to MSMEs through those instruments and to provide technical assistance to them to better manage their business and business plan, are key elements that need to be on the agenda of all governments in the region.

The EU has a major long-term interest in the stability of the Mediterranean and Middle East, and it must prioritise its assistance to support political and

economic reforms and education. Some argued that the EU can only promote these changes, not impose them, but it must be more consistent and use the tools in the Association Agreements and Action Plans.

International Actors in the Mediterranean Region

In terms of trade, we can clearly see the interest of world powers in the Mediterranean. Trade in goods is mostly calculated by tracking containers, and China has an increasing predominance in the Mediterranean. The importance given to the Belt and Road Initiative is one indicator that proves the growing role of China in the region and the data also proves it: in 2009 China already surpassed the United States as the largest trade partner of the MENA region. Its interest is also easily explained by analysing the importance of the total trade with the EU and MENA countries, which recently scaled up to 7.1% of China's GDP (€ 751.2 bn). This translates to the role that the actor will have in the Mediterranean in the near future and its impact on the economic development of the region.

When it comes to the maritime economy, there are some key ideas that need to be taken into account in order to foster economic development in the Mediterranean, as there are clear indications of the growing centrality of the Mediterranean in the sector. Firstly, from the European side there is a need to look at the ports and logistics beyond the national context and be more focused on the Euro-Mediterranean perspective. Secondly, there is still no European policy to look at ports and their management from a communitarian perspective. Using free zones and special logistics zones would be a strategic asset to attract foreign investors and have fiscal policies but not only at the national level. Finally, given the rising role of China, the EU should be able to agree on the negotiation of a bilateral agreement.

Some participants argued that the Mediterranean region is now completely involved in the globalisation process and for this reason the region is a geopolitical and economic paradox in the sense that it is more enlarged and interconnected than ever before, but it is also more fragmented. But this enlargement of the Mediterranean forces Europe to decide on who the new point of reference is,

the real actors and competitors. The BRICS, for example, are progressively building strategic partnerships with the Southern Mediterranean countries as they are reaching comprehensive agreements in all fields of cooperation (political, economic, social and cultural).

Recommendation to Change the Situation

Some argued that several decades of Mediterranean cooperation have not translated into substantial advancement in regional integration, with the exception of some progress with trade liberalisation, which has been limited in depth. Economic catch-up between the Northern and Southern Mediterranean did not materialise and intra-regional disparities did not shrink, which was one of the core objectives of the Barcelona Process. Trade agreements between the EU and Southern Mediterranean countries failed to address the persistent and, in recent years during the economic recession, increasing trade deficits. These trade agreements also failed to mobilise substantial FDI which still remains low compared to benchmarked regions.

Nevertheless, the main obstacle remains between the southern countries, which have completely failed to achieve South-South integration. Both the Great Arab Free Trade Area (Arab League) and the Agadir Agreement (UMA) have not delivered the expected results, despite all the legislative reforms and unification of tariffs.

When it comes to the changes that need to be put in place, some argued that multilateralism and multilateral institutions should be enhanced and reinvigorated. Regionalism requires stronger multilateral institutions and processes and therefore institutions like the UfM and the 5+5 Dialogue should be promoted by giving them more tools, functions and powers. They should be strengthened, especially in those key and relevant sectors for economic integration, such as trade, digital economy or transport.

Moreover, the EU also needs to promote political incentives better than conditionality. The only way to advance in regional economic integration is

through regulatory convergence, especially taking into account the prevailing vertical and asymmetric nature between the Northern and Southern Mediterranean. In order to do so, there is a need for a qualitative offer from the EU to the Southern Mediterranean countries that takes a long-term view of access to EU internal markets, labour mobility and joint security.

Finally, regional trade agreements and investment policies should aim to create the conditions for regional value chains (RVC) to emerge, which can, of course, be connected to GVC. These policies should primarily aim to enhance the access of domestic firms, and particularly SMEs, to RVC. This would require a reform of the education system to create resilient workers and adapt to the labour demand that should exist in the region.

The Role of Human Mobility and Diasporas as a Means of Co-Development

The session devoted to human mobility and diasporas started with the general consensus on the importance of changing the way migration is discussed, as this has often been done in negative terms and it is essential to build a positive agenda. Migration fluxes have always existed between Mediterranean countries and they should not be considered a new element that disrupts the construction of a shared and more prosperous region.

In that respect, human mobility as of now is at risk due to the increasing dominant position that European governments are taking towards economic migrants. There is a need to promote the co-development concept as it was coined by Algerian-French political philosopher Sami Nair, by focusing on the importance of migration as a means of development for the country of origin. As a development strategy it assumes that migrants and their offspring are the best placed actors to foster development in their countries of origin given their knowledge, double culture and better understanding of the economies. Many international institutions such as the World Bank are aligned with this position and consider migration to be a key element for the development of countries.



Jaume Lanaspá gives a speech on the role of human mobility in the Mediterranean

In the last few years, some countries have moved away from this concept and towards encouraging the return of migrants to their country of origin. Nevertheless, this strategy has now worked as migrants have built their lives in the country of destination and there are no incentives to go back and start over.

Turkey was the first country of origin of migrant workers to Europe during the second half of the last century but now numbers have reduced drastically, and when there is transit it is bidirectional mobility, and this is due to the development of the country. Some argued that it has not been proven that migrants were an important element in the development of their country of origin in this case.

On the other hand, the case of Egypt was presented as an example that shows the importance that migration can have for their country of origin, as the return in economic terms of wealth generated by Egyptian workers and then sent back is around €20,000 million per year (four times bigger than what Moroccans send back to Morocco).

When it comes to the non-economic migrants such as refugees, it needs to be highlighted that the Mediterranean region tops most world rankings, as it is the first in terms of creating refugees, both receiving and hosting, movement of refugees and also human displacement. In 2015 Europe occupied a strong position in welcoming refugee influxes but there has been a clear shift towards defending the reintegration of refugees in their countries of origin and also advocating that refugees become economic actors in their first country of arrival (Jordan, Lebanon...). Despite their willingness to respond to the refugee influxes, these countries already face high unemployment rates and do not share this strategy.

The Policy Angle with Regards to Human Mobility on the EU Side

It is interesting to note that the Barcelona Process tells us a lot about the importance given to migration as a phenomenon back in 1995, as it was allocated in the “third basket” that had to do with social issues, cultural dialogue and interreligious dialogue, while most resources were allocated to the political security and economic integration baskets.

But this has now completely changed and human mobility is a key topic for the EU and Southern Mediterranean region. This proves the powerful

interconnections between the interior and exterior dimension of the European integration process. Some argued that mobility is probably the first and foremost aspect in which you see the impact of globalisation. In itself mobility is a means of embedding the region in global dynamics and the analysis of trade and the effect of external actors cannot be understood without also focusing on mobility.

From the European side, there is a tendency to look at migration according to a number of dichotomies, especially two, which are more or less overlapping. Firstly, between migrants and refugees or asylum seekers, which can be equivalent to the economic dimension versus the political dimension. The Mediterranean has seen an evolution of the migration flows with its peak in 2015 but this phenomenon is usually analysed in terms of routes, figures, flows, patterns and transit, which misses the point of the causes. And the EU's response through its policies is now more related to the containment or management of migration, as mentioned before. The bilateral agreements with countries of origin and transit (Tunisia, Libya, Turkey) are all examples of not directly addressing the phenomenon of migration in its holistic perspective but only as containment measures.

Secondly, there is a difference in the legal regime at play between regular and irregular migration. Most of the policy responses have tried to deal with the short-term irregular migration problems while not much attention is given to regular migration. This is the real potential for co-development, not only given the existing complementarities, especially taking into account demographic trends, but also the increasing interest from the Southern Mediterranean to reach agreements to foster regular migration.

Building a Positive Agenda Based on our Future

It is impossible to conceive any development analysis that is disconnected from the notion of social economic mobility. Some argued that there is no social or economic progress without mobility and in reality diasporas and migration have simply been the quintessential elements for development. Therefore, migration

can be considered the natural reaction of the system to imbalances in order to readjust. The system naturally promotes the movement of migrants from where the return is very low to places where it is higher and migration has always been equivalent to development as it is a key aspect of it.



From left to right: Francesc Homs, Bernard Snoy et d'Oppuers and Senén Florensa

Demography is a real factor in the African continent and so the focus also needs to be on the generations to come. Fostering a more internationalised higher education would enhance a multicultural and interconnected generation that allows citizens to be trained with the idea of a common and shared Mediterranean and thereby foster cultural dialogue. The Mediterranean University of Fez (UEMF) was one of the examples pointed out by the experts as a good initiative for moving forward.

Moreover, it is important to support institutions such as the Siemed Network to help entrepreneurship initiatives in the Mediterranean and foster the creation and sustainability of SMEs, very small businesses (VSBs) and microenterprises in the Mediterranean through the mobilisation of entrepreneurs and investors from the diaspora community.

There are more than one million highly educated professionals from the Southern Mediterranean countries living in Europe that support the economic development of their country of origin and are willing to invest in it. And creating more economic ties between Northern and Southern Mediterranean countries will enhance job creation, a fundamental challenge that will need to be faced together.

